

# **Minutes Of The Board Of Trustees City Of Cincinnati Retirement System May 4, 2006**

The Chairman called the meeting to order at 1:30 p.m. with the following members present:

Joe Gray, Secretary  
Dan Radford, Chairman  
David Rager, City Manager  
Margaret Allen  
Brian Pickering  
Marijane Klug  
Ely Ryder  
Gina Marsh (proxy for John Cranley)

## **Member/s Absent**

Mark Mallory, Mayor  
Joe Harrison  
Michael Rachford

Mr. Radford called for a motion to approve the minutes of the April 6, 2006 Board Meeting. The motion to approve the minutes was made by Ms. Klug, seconded by Mr. Ryder and carried by the Board.

The Chairman informed the Board of a proxy letter from Councilman Cranley, appointing Ms. Gina Marsh to serve as his proxy in his absence.

The Chairman introduced Ms. Margaret Allen who will serve as the Civil Service Representative on the CRS Board of Trustees. Assistant City Solicitor Kristen Eatmon was on hand to officially swear in Ms. Allen as a member of the CRS Board of Trustees.

## **SECRETARY'S REPORT**

Mr. Gray reported that fund assets had increased from \$2.40 billion at year-end to \$2.49 billion as of the end of March, an increase of 2.76%. As of March 31, 2006, the asset allocation was 52.2% domestic equities, 17.5% international equities, 28.8% fixed income, 0.8% alternative assets, and 0.7% treasury cash.

The Secretary submitted the following report:

1. Resolution for Enrollment of New Members – Total: 78
2. Resolution for Return of Contribution & Deaths of Pensioned Members  
Total: – 32 - Amount: \$157,394.14
3. Resolution for Loans to Members – Total: - 46 Amount: \$507,657.52
4. Resolution for Deaths of Pensioned Members – Amount: 16
5. Resolution for Members to Purchase Military Service Credit: 3

The Secretary submitted the following vouchers for payment:

<b>PAYEE</b>	<b>AMOUNT</b>
Millennium Business Systems – Billing charges for Toner Cartridges	\$275.24
Judges’ Committee on Notaries Public – Renewal for F. Mitchell	\$50.00
Linda Miller – Reimbursement for Loan deduction	\$60.03
ABS Business Products Inc. – Monthly Rental Billing for Copier	\$180.60
Lee Personnel Inc. – Temporary Personnel Services	\$1,104.52
Michael Rachford – Reimbursement for conference expenses incurred Apr 27-May 4, 2006	\$1,735.93
City of Cincinnati – Accounts & Audits – Cinsy Billing for Jan, & Feb. 2006	\$12,699.50
Business Information Solutions Inc. – Storage of CRS files	\$194.61
Mae Consulting Inc. – Professional Services Rendered	\$585.00
Lee Personnel Inc. – Temporary Personnel Services	\$666.25
City of Cincinnati – Finance Director’s Office - Reimbursement for expenses incurred at the Annual Government Finance Officer’s Association May 6-10, 2006	\$872.77
Levi, Ray & Shoup Inc. – Professional Services Rendered	\$130,711.00
Lee Personnel Inc. – Temporary Personnel Services	\$852.97
Fifth Third Bank - Custodial Services	\$25,364.45
John Walsh – Reimbursement for Conference Registration fee for the International Foundation – Annual Employee Benefits Conference	\$995.00
Lee Personnel Inc. – Temporary Personnel	\$1,579.47
Accordia – Fiduciary Liability Insurance	\$39,950.00
University of Cincinnati – Reimbursement for overpayment of members contributions	\$3,810.95
Paul T. Hogya, MD – Professional Services Rendered	\$1,345.00

The Secretary reported that at the close of business April 30, 2006, there was in the Treasury to the credit of the Retirement System the amount of \$3,111,338.28.

**Asset Valuation:**

- December 31, 2005: \$2.40 billion
- March 31, 2006: \$2.49 billion
- YTD Increase (Decrease): 2.76%

**Current Asset Allocation: (Interim Policy Objective)**

- Domestic Equity: 52.2% (52.7%)
- International: 17.5% (16.9%)
- Fixed Income: 28.8% (29.5%)
- Alternative Assets/Treasury Cash: 1.5% (0.9%)

**NEW BUSINESS**

Mr. Gary Dickson and Mr. Tom Hackman from Mercer Human Resource Consulting were on hand to present the actuarial valuation and management report for 2005.

Mr. Dickson recommended that an experience study be conducted within the next year or so. The purpose of an experience study is to examine termination rates, retirement rates, salary increases, medical costs increases, etc. to determine if any changes need to be made to the current actuarial assumptions for these factors. The last experience study was completed in 2002, and these studies should be done every five years or so to ensure that the assumptions used in completing the actuarial reports are based on current data and trends.

Highlights of the 12/31/2005 actuarial report are as follows:

- 1) The total required contribution decreases from 32.19% of pay for 2006 to 29.09% of pay for 2007. The employer's share of the total required contribution for 2007 is 21.77% of pay, which exceeds the current employer contribution which is 17.0%.
- 2) The number of active participants continue to decrease year over year, while the number of retired participants continues to increase. As of 12/31/2005, there were 3,374 active full-time participants and there were 4,567 retired participants.
- 3) Investment returns in 2005 were 6.79% compared to the 8.75% assumed rate of return. Although this resulted in an actuarial loss of about \$45 million, the five-year asset smoothing method and the recognition of some actuarial gains from 2004 negated this loss.
- 4) Actual medical claims in 2005 were lower than expected resulting in an actuarial gain of about \$65 million. Medical costs were expected to average about \$6,800 per person in 2005, but actual costs were about \$600 lower than that at about \$6,200 per person.
- 5) Average medical costs have increased steadily from 2,880 per person in 1999 to \$6,215 per person in 2005, and the cost assumption for 2006 is \$7,100 per person. Mr. Hackman indicated that these costs increases are a little higher than the medical costs increases experienced by other plans.
- 6) Lower than expected salary increases for active participants resulted in an actuarial gain of about \$9.1 million.
- 7) More participants retired than expected by the retirement rate assumptions, particularly among those participants who just became eligible. Mr. Dickson commented that they expect about 25% to 30% of participants to retire immediately upon eligibility, but in 2005 about 50% of first-time eligible participants immediately retired.
- 8) Based on the actuarial value of assets, the funding ratio increased from 93.7% to 95.0%. The major factor contributing to the improved funding ratio is the actual medical costs being lower than expected.

Mr. Dickson also discussed the following issues facing the CRS plan:

- 1) Mr. Dickson believes the 8.75% return assumption is higher than it should be, and this has a major impact on the projected liability calculation. Mr. Dickson stated that a survey of XXX municipal public pension plans conducted by Wilshire Consulting indicates the CRS's 8.75% return assumption as the 3<sup>rd</sup> highest in the survey. The median return assumption in this survey was 8.0%.

Mr. Dickson indicated that if the CRS utilized an 8.0% return assumption, the projected liabilities would increase by about \$240 million, the required total contribution rate for 2007 would be 45.36% of payroll instead of 29.09%, and the funding ratio would be 88% instead of 95%.

- 2) The asset performance has a tremendous impact on the level of contributions. Each 1% of return not achieved represents approximately \$24 million of lost asset return. If the fund consistently under-performs by 1% each year, the fund would require additional annual contributions of about \$42 million per year after 15 years. This would result in the contribution rate rising to 54% of payroll assuming all other actuarial assumptions are met and the return assumption remains at 8.75%.
- 3) Current contribution rates are less than the required contribution rates, which results in increasing the accrued liability. In order to avoid an increase in the un-funded liability, either benefits must be reduced (medical or pension) and/or contribution amounts must be increased.
- 4) A large number of active City employees will be eligible to retire over the next five years. Out of 3,125 active City participants, 923 will be eligible to retire with un-reduced benefits prior to January 1, 2011. This is almost 30% of the current work force.
- 5) Effective in 2007, the Medicare B premiums will be based on income. Retirees with income above \$80,000 (\$160,000 if married) will pay a higher premium for Medicare B. The City will need to determine whether or not this change in federal law will impact the Medicare B reimbursements made by the plan.

## **BENEFITS COMMITTEE**

Mr. Pickering presented the following report to the Board:

### **1. Application for Ordinary Retirement - May 2006: Total – 9**

<b>NO.</b>	<b>NAME</b>	<b>DEPARTMENT</b>
34757	Francis Cornelius	Water Works
39422	Judith Scarbrough	Health
41745	James Farfsing	Parks
44208	James Pulskamp	University of Cincinnati
44212	Dennis Whitener	Facility Management
44262	James EntriKin	Health
45063	Linda Carver	University Hospital
48387	Kenneth Williams	Parking Facilities
50670	George Drake	MSD

### **2. Application for Retired Members Deaths: Total – 9**

### 3. Application for Deferred Retirement: Total – 3

NO.	NAME	DEPARTMENT
50652	Sharon Mangold	City Manager
51990	Toni Mays	Health
62387	Marsha Schwab	Police

Mr. Pickering moved that the Board accept the report of the Benefits Committee. The motion was seconded by Ms. Klug and carried by the Board

### **PENDING BUSINESS**

Mr Walsh reported that a draft of the RFQ for consulting services has been started and may be ready within a few weeks. When the draft is complete, a copy will distributed to interested Board members for their review and input.

Mr. Giles reported that there are three candidates for this year's election for the employee representative. The election date is June 6, 2006, and ballots will be distributed to agencies the week of May 15, 2006. Mr. Giles commented that the Election Committee is scheduled to meet within the next week to review election policies and procedures.

Mr. Gray reported that the Pension Fund Manager selection committee is currently in negotiations with one candidate and should have a person hired by the June Board meeting.

### **PUBLIC COMMENTS**

Mr. Denny Davis, a retired member of the CRS, commented that the interest rate assumptions used by the other public pension plans in the Wilshire survey may be too conservative, and the Board needs to study more data to justify a rate lower than 8.75%. Mr. Davis said that history indicates a return assumption of 8.75% is conservative, and the Board should look at the investment practices of Ohio PERS who earned about 10% last year.

Mr. Don Beets, a retired member of the CRS, stated that the motion submitted by Mr. John Cranley in April 2005 stated that the Board would not take any actions related to benefit changes until this 2005 actuarial report was presented. Now that the 2005 report has been presented, Mr. Beets asked if the prior recommendations for plan design changes would be brought back to the Board. Mr. Radford commented that the Board members should study and review the report before initiating any discussion on potential changes to the CRS plan.

### **ADJOURNMENT**

Upon request of the Chairman for a motion to adjourn, the motion was made by Mr. Pickering, seconded by Mr. Ryder, and carried by the Board. The meeting was adjourned at 2:45 p.m.